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From the Los Angeles Times

# Firm Says Process for Shipping Gas Is Safer

Instead of using terminals, the company would convert natural gas from a liquid state on tankers and deliver it through a pipeline.

By Deborah Schoch
Times Staff Writer

January 17, 2006

A major Australian energy firm plans to ship liquefied natural gas to Southern California with a new process that it says is safer and more environmentally sound than the use of the terminals that three other companies want to construct in the state.

A Woodside Energy Ltd. subsidiary is set to announce its plans Wednesday at a Sacramento news conference but will not disclose where off the coast it hopes to build its system. The project could supply 10% to 15%of California's natural gas supply, said Jane Cutler, president of the Woodside subsidiary that is leading the effort.

The firm's entry into the California market could shake up the current liquified natural gas debate over the safest way to import the fuel.

Three terminals have been proposed, one at the port in Long Beach and two off the coast of Ventura County. But unlike those projects, Woodside officials say, their plan would not require building a terminal to convert the liquid back to a gas. Instead, the company would construct special tankers that could do that and would deliver the natural gas directly into an underwater pipeline 15 miles off shore.

A similar but smaller liquified natural gas project began operating in the Gulf of Mexico last year.

The four proposals must be thoroughly vetted under state and federal environmental laws. The final environmental review for the Long Beach project is expected by early summer. A new version of the review of one Ventura County project, proposed by Australian-based BHP Billiton, is expected in March.

Liquified natural gas is gas has been chilled to minus 260 degrees Fahrenheit, a process that condenses the gas so much that it can be shipped by tanker. When it is unloaded, it is warmed in a process called regasification and shipped inland by pipeline for use in homes, businesses and other facilities.

The liquefied gas is highly flammable.

In Long Beach, a proposed Mitsubishi-ConocoPhillips onshore terminal inside the city's port has drawn concern from state officials and some residents that a terrorist attack or

major accident could kill or injure hundreds of people. And the two proposed terminals off the Ventura County coast have been criticized because environmentalists worry they could produce air pollution and interfere with shipping lanes.

Proponents of the plants say they can be built so they are safe and will provide California with a needed supply of natural gas, which has become increasingly expensive in recent years as domestic sources have dwindled.

Only five liquified natural gas import facilities are operating nationwide today, all on the East and Gulf coasts. But energy companies have submitted dozens of applications for new terminals, including some on the West Coast.

Some state officials think that California needs only one or two liquified natural gas import projects, intensifying the competition.

Michael R. Peevey, president of the California Public Utilities Commission, said Monday: "Over the next 10 to 15 years, we could probably use two."

Peevey said he met with Woodside representatives about 10 days ago and was impressed with their plans. "They are a very large, reputable company that operates [gas] fields on behalf of itself and many others," he said.

He added that offshore facilities — the kind proposed by Woodside, BHP Billiton and a third company, Crystal Energy — would seem safer than placing an onshore facility in a populated area. "If you're going to site an LNG terminal, it seems to me it's vastly preferable to have them offshore rather than sited in a very busy harbor," Peevey said.

Officials with Mitsubishi-ConocoPhillips said their onshore terminal would include many safeguards to prevent accidents.

Woodside Energy is Australia's largest independent oil and gas company. It exports liquified natural gas, largely to Japan and Korea. The company, which established its U.S. subsidiary, Woodside Natural Gas Inc., last year, said the Southern California project is its central West Coast focus.

The California coast provides some special challenges for LNG importers, Cutler said. "There is an extra sensitivity about the environment," she said, adding that Woodside is committed to sound environmental practices.

The firm already has met with environmentalists involved in the liquified natural gas debate, including veteran Sacramento environmental lobbyist V. John White.

"The questions they're asking, and their approach, and the fact they own their gas, makes them a serious player," he said.

# Natural Gas Terminal Off Coast Is Proposed

## A project about 22 miles south of Malibu is one of several proposed to meet state energy demand.

By Marc Lifsher, Times Staff Writer
March 15, 2006
http://www.latimes.com/business/la-fi-lng15mar15,1,1802724.story?coll=la-headlines-business

Australia's Woodside Energy, hoping to overcome environmental and safety concerns, is expected to unveil plans today to place a liquefied natural gas terminal in the Pacific Ocean about 22 miles south of Malibu.
It would be the latest of half a dozen proposals to meet California's growing demand for clean-burning energy by importing liquefied natural gas. A debate over the safest way to handle the volatile fuel has dogged all of the projects.

Under Woodside's proposal, the gas would be pumped from Australian fields, supercooled to a liquid and transported in specially designed tanker ships. Upon arrival at the offshore terminal, the liquid would be turned back into a gas while still aboard ship, then sent via underwater and overland pipelines to the Southern California Gas Co. delivery network.

The terminal, which would be little more than a ship mooring with a flexible connection to the pipeline, involves no permanent structure that can be seen from shore, said Jane Cutler, president of Woodside's Los Angeles-based subsidiary.

Cutler said the proposed site was close to the giant Los Angeles market and was also the best of 17 locations studied between Monterey Bay and the Camp Pendleton Marine base.

The project site - in the 3,000-foot-deep Santa Monica Basin, about 22 miles from both Point Dume in Malibu and the northern tip of Santa Catalina Island - does not interfere with shipping lanes, ferry routes, nature preserves or military exercise zones, Cutler said. The undersea pipeline would come ashore at Los Angeles International Airport.

Woodside expects to file applications with state and federal regulatory agencies in the next 60 days. If it gets the needed approvals, Woodside could begin importing an average of 800 million cubic feet a day of natural gas by 2011, providing enough fuel to supply as much as 15% of the state's market for home heating, heavy industry and electricity generation, Cutler said.

The plan is similar to a proposal by another Australian company, BHP Billiton, to put a floating liquefied natural gas terminal in the ocean 21 miles off Port Hueneme in Ventura County. However, the BHP plan would require a permanent offshore regasification facility, where the super-cooled liquid is turned back into gas.

Environmentalists are fighting the BHP proposal, questioning its safety and whether there will be enough demand for the gas.

But if California eventually decides to import liquefied natural gas, then the Woodside proposal might make sense, said Susan Jordan of the California Coastal Protection Network in Santa Barbara.

"If we import, the next technology should be the safest and carry the least environmental footprint," Jordan said.

Other proposals include building land-based plants in Long Beach and northern Mexico and retrofitting a mothballed oil platform off of Oxnard for a liquefied natural gas facility.

Although the LNG industry has had a generally strong safety record, some officials worry about putting a potentially dangerous regasification plant in an urban setting such as Long Beach.

Chris Garner, director of gas and oil for Long Beach, said his office had yet to approve the project and was continuing to analyze the safety and economic aspects of the liquefied natural gas proposal.

Andy Stern, mayor of Malibu, said of Woodside's proposal: "The vast majority of people in my city are opposed to any LNG facility. It's an environmental disaster waiting to happen."

BHP, which is holding environmental hearings on its Cabrillo Port project next week, hopes to complete the review process by late summer.

Would-be liquefied gas importers are banking on California Energy Commission estimates that demand for natural gas will grow steadily over the next decade while supplies are expected to decline. Average prices have more than doubled to around $7 per 1,000 cubic feet since 2002 and hit a record high of nearly $16 late last year.

"We need more natural gas. The state needs it to grow," said Dorothy Rothrock, a vice president of the California Manufacturers and Technology Assn.

Environmentalists and community activists, however, believe the state should cut imports of petroleum-based fuels and focus on conservation and developing new sources of renewable energy. They're backing a bill in the Legislature that would require the California Public Utilities Commission to

quantify the state's natural gas demand and rank LNG proposals on criteria for safety, environmental protection and economic necessity.

http://www.latimes.com/business/la-fi-lng6apr06,1,5325576.story?coll=la-headlines-business

# Offshore Natural Gas Site Sought

Tiny Tidelands Oil & Gas wants to import and `regasify' liquefied fuel near Long Beach.

By Elizabeth Douglass, Times Staff Writer April 6, 2006

Tidelands Oil & Gas Corp. said it was weighing a liquefied natural gas project off the coast of Long Beach, making it the fifth company to propose such a facility in Southern California.

The small San Antonio-based company, which is pursuing a smattering of natural gas projects, announced its intentions Tuesday but declined to offer details except to say that the sites under consideration for building a terminal are as many as 12 miles away from the shores of Long Beach.

"We're very far along," said Michael Ward, president of Tidelands and Esperanza Energy, a California subsidiary created for the enterprise. "We're in the 'fatal flaw' analysis of our project."

Ward, in an interview Wednesday, said the company would provide more information soon.

California is more dependent on natural gas than many states because nearly half of its electricity comes from gas-fired plants. The state consumes an average of 6 billion cubic feet of natural gas each day — and imports 87% of it from elsewhere in the United States, according to the California Energy Commission.

As the state's energy needs grow, so will demand for natural gas imports. State energy officials believe that will require liquefied natural gas, which is liquefied by chilling it to minus 260 degrees Fahrenheit, compressing it so it can be carried long distances by tanker ships. At the unloading point, a "regasification" facility converts the liquid back into a gas, which is carried by pipeline to power plants and other users.

Last month, Woodside Energy of Australia unveiled plans to build a receiving terminal in the ocean about 22 miles south of Malibu. That design calls for regasification to take place onboard specially designed ships. The gas would then be piped to shore, eliminating the need for a regasification structure.

BHP Billiton of Australia, Crystal Energy and a partnership between ConocoPhillips and Mitsubishi Corp. also have announced proposals for liquefied natural gas projects in Southern California. Excelerate Energy, based in the Woodlands, Texas, is considering building a gas project off California but hasn't said where.

Shell Oil Co., Chevron Corp. and Sempra Energy are involved in liquefied gas projects along the Western coast of Baja California.

All of the projects have been dogged by community concerns about safety and pollution.

"What you're seeing is competition in the approach, design and structure … to satisfy the environmental and safety issues associated with the various designs," California Energy Commission Chairman Joseph Desmond said. "In the end, it will be one, maybe two" plants.

Paul Flemming of Energy Security Analysis Inc., a Wakefield, Mass., research company, said the state "really needs additional energy resources, so having LNG coming right into California makes a lot of sense…. In California, the permitting issues are the big hurdles."

Tidelands is tiny, especially when compared with the conglomerates and oil giants in the field. The company reported a $3-million loss for the first half of 2005 on $850,000 in revenue from natural gas sales and pipeline fees, according to data on file at the Securities and Exchange Commission. Tidelands had $3.5 million in cash June 30 but raised $6.6 million this year in a private placement.

The Malibu Times

Print Page

# Malibu's coast gets 2nd LNG terminal proposal

Another Australian firm wants access to the lucrative California natural gas market through local waters.

By Hans Laetz / Special to The Malibu Times

A spot midway between Point Dume and Catalina Island has been selected by an Australian petroleum company to host this coast's second proposed offshore liquefied natural gas terminal. A subsidiary of Woodside Petroleum wants to unload natural gas for sale to the California market about 25 miles from the site where BHP Billiton plans to station its LNG terminal.

An official with Woodside's new natural gas subsidiary said their project, dubbed "OceanWay," will be barely visible from Malibu because it will be 22 miles from Point Dume, and will not use a permanent factory ship to unload the gas, as will the Billiton proposal called Cabrillo Port.

"It is important to note that our proposal will not require the construction of a large receiving station either onshore or at sea," said Woodside Natural Gas President Jean Cutler at a Wednesday news conference.

Billiton has raised objections along the coast with its plans to anchor a permanent, 14-story-high floating regasification and storage unit, or FSRU, 13.8 miles off the Malibu coast. The FSRU's trio of round 55-million gallon tanks would be visible on clear days from the Pepperdine University campus west to Port Hueneme, according to an analysis released this week.

Woodside would avoid the need for an FSRU by placing regasification boilers on all of the LNG tankers that it would build to ferry gas from Australia and Asia to the California market, Cutler said.

Coastal advocates said they were happy to see an LNG terminal proposal surface without an FSRU. But others noted that Woodside's shipboard LNG boilers would emit exactly as much smog as the Billiton factory ship.

Cutler said the Woodside project would abide by South Coast Air Quality Management District smog regulations, which could require the company to purchase and retire 1.5 tons of existing smog emissions for every ton of smog generated by the offshore LNG ships.

"We think we can meet the South Coast AQMD standards and regulations," Cutler told The Malibu Times, "but we still have our engineers doing a lot of work on this project."

Billiton, which will compete with Woodside by building its $600 million FSRU for the Malibu coast, does not have to meet that expensive pollution offset cost. The federal government has changed its position and says Cabrillo Port can use what opponents call a loophole in Ventura County smog rules, which do not have any provisions for a factory ship stationed off the coast.

Cutler said the Santa Monica Bay location was chosen on three criteria: environmental friendliness, distance from residential neighborhoods and sufficient distance from maritime shipping lanes and marine preserves.

Cutler said the only visual impact from the Woodside project would be the anchored LNG tankers themselves, sitting far off in the ocean and not visible most days. When not in use, the buoy the ship would use to transfer the gas to pipelines would sit more than 100 feet underwater.

Gas from the ships will come ashore from a pipeline buried in the beach near Los Angeles International Airport, where it will connect with the nation's gas pipeline network. Once operational, the Woodside terminal could supply 10 percent to 15 percent of the state's needs. The conversion of LNG to natural gas is already being done elsewhere, Cutler said. One objection to the Billiton FSRU concept is that the transfer of subzero methane from one ship to another has never been attempted except in wave-free harbors. Woodside's plan will avoid that, and will unload natural gas using a proven and safe technology, Cutler said. Two other LNG terminals are proposed for Southern California: one near Oxnard has yet to apply for permits, and one planned for City of Long Beach property is encountering opposition from all four mayoral candidates in this year's elections.

Construction is now 30 percent complete on Sempra Energy's LNG project near Ensenada, which may be expanded to nearly three times the size of Billiton's proposal. Some analysts say the Baja California terminal and pipeline may supply all the LNG the West Coast needs, making construction of the Malibu-area terminals less likely.

# Esperanza studies LNG terminal off California

**By OGJ editors**

**HOUSTON, Apr. 6** -- Esperanza Energy LLC, formed in March by Tidelands Oil & Gas Corp., San Antonio, is evaluating feasibility of a deepwater LNG terminal at an undetermined site as far as 12 miles off California.

Tidelands said Esperanza has assembled a team of LNG, environmental, and legal consultants to conduct the study.

The proposal joins a list of LNG projects proposed for California and northern Mexico, not all of which will be built:

-- Sempra LNG began construction in March on the Energia Costa Azul terminal in Baja California, Mex. Sempra says the facility is on schedule to be operational by early 2008 (OGJ Online, Oct. 26, 2005).

-- Woodside Natural Gas Inc. is seeking permits for its OceanWay Secure Energy project 28 miles off Los Angeles. The project will involve an underwater buoy that would connect to specially designed vessels, which would offload regasified LNG into a subsea pipeline (OGJ Online, Mar. 20, 2005).

-- Australia's BHP Billiton Ltd. has applied for permits for the $550 million Cabrillo Port floating LNG project 21.5 miles off Ventura County (OGJ, Nov. 17, 2003, p. 39). It would involve a permanently moored floating, storage, and regasification unit (800 MMcfd), traditional LNG storage tanks, and a subsea, 30-in. pipeline to shore near Oxnard Calif.

-- Houston-based Crystal Energy LLC's Clearwater Port project would use the existing Grace oil platform 11 mi. off Ventura County as the site of an LNG terminal (OGJ Online, Nov. 3, 2003).

-- Chevron Corp. is looking at sites for LNG import terminals in northern and southern California and planning a terminal 8 miles off Tijuana, adjacent the Coronado Islands (OGJ, June 14, 2004, pp. 22, 26).

-- ConocoPhillips and Mitsubishi Corp. subsidiary Sound Energy Solutions last year formed SES Terminal LLC to jointly build an LNG import terminal at Long Beach, Calif., by 2009 (OGJ Online, May 18, 2005).

ALJ/LEG/jva

**Mailed 1/27/2004**

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

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| Order Instituting Rulemaking to Establish Policies and Rules to Ensure Reliable, Long-Term Supplies of Natural Gas to California. | FILED<br>PUBLIC UTILITIES COMMISSION<br>JANUARY 22, 2004<br>SAN FRANCISCO OFFICE<br>RULEMAKING 04-01-025 |

# ORDER INSTITUTING RULEMAKING TO ESTABLISH POLICIES AND RULES TO ENSURE RELIABLE, LONG-TERM SUPPLIES OF NATURAL GAS TO CALIFORNIA

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# ORDER INSTITUTING RULEMAKING TO ESTABLISH POLICIES AND RULES TO ENSURE RELIABLE, LONG-TERM SUPPLIES OF NATURAL GAS TO CALIFORNIA

## I. Summary

This Order Instituting Rulemaking (OIR) is issued in response to new reports, recent Federal Energy Regulatory Commission (FERC) orders, and ongoing changes in the natural gas market, which indicate that in the long-term, there may not be sufficient natural gas supplies and/or infrastructure to meet the requirements of all California residential and business consumers unless the Commission takes certain actions in the near future. As the California Energy Commission (CEC) recommended in its 2003 Integrated Energy Policy Report (IEPR), issued in December, 2003, at VI, VIII, 26 and 29, California must reduce or moderate demand for natural gas and promote infrastructure enhancements, such as additional interstate pipeline capacity, increased use of in-state storage, and access to Liquefied Natural Gas (LNG) facilities on the West Coast. These recommendations were supported by many of the participants at the two-day workshop entitled "Natural Gas Market Outlook 2006-2016," which our Commission and the CEC jointly sponsored on December 9-10, 2003.

In order to ensure reliable, long-term natural gas supplies to California at reasonable rates, the Commission must make certain decisions in 2004 with regard to the California natural gas public utilities, which the Commission regulates, so that: (1) increased demand reduction efforts (e.g., energy efficiency and renewable energy programs) help moderate the potential supply imbalance in the future; (2) sufficient firm interstate and intrastate pipeline capacity will be available to serve California; 3) the benefits and flexibility of storage facilities will be fully appreciated and utilized; and 4) access to imported natural gas supplies (e.g., from LNG facilities) will be available to meet the new challenges

we face. We must make a number of decisions related to these issues this year, due to the long lead time to construct LNG facilities and due to certain deadlines in 2004 involving existing interstate pipeline capacity contracts and open seasons for new pipelines, including pipelines related to LNG projects.[1]

In a separate rulemaking (i.e., Rulemaking (R.) 01-08-028), the Commission is addressing natural gas energy efficiency programs and is exploring how to increase demand reduction efforts, including increasing funding for natural gas energy efficiency programs.

In the present rulemaking, the Commission is naming as Respondents the following California natural gas public utilities: Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas) and Southwest Gas Corporation (Southwest Gas). We are requiring them to respond to data requests and to submit proposals to the Commission to address how California's long-term natural gas needs should be met with interstate and intrastate pipeline expansions, more flexible storage operations and access to proposed LNG facilities. The Commission invites all other interested parties to respond to the California natural gas utilities' proposals and to participate in this rulemaking.

In light of certain deadlines facing the California natural gas utilities and/or other participants in the natural gas market, we are establishing two phases in this rulemaking. In Phase I, we are requiring the utilities to address in their proposals those matters which may require a decision by the Commission

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[1] In the Commission's report entitled "2002-2006 California Natural Gas Infrastructure Outlook" (November 2001) at 58, we stated that the Commission would conduct another overall evaluation of California's natural gas infrastructure in two years. This rulemaking shall serve as that evaluation.

by the Summer of 2004. Phase II will address those matters which the Commission can decide by the end of the year. Accordingly, certain issues will have to be addressed by all interested parties, as well as the Commission, on a much more accelerated pace than other issues.

## II. Background

Since the early 1980s, North America has benefited from surplus natural gas supplies. From the early 1990s until the Summer of 2000, California also enjoyed the benefits of a significant amount of excess interstate natural gas pipeline capacity. Many of the Commission's policies involving natural gas during the past two decades (e.g., "let the market decide" expansion policies, limits to the natural gas utilities' public service obligation to procure natural gas for their noncore customers) reflected these conditions. In these surplus situations, competition has worked very well. As a result of the competition among marketers of natural gas, there were relatively low natural gas prices at the California border until the Summer of 2000.

From the Summer of 2000 through the Spring of 2001, California suffered from an energy crisis, which included exorbitant natural gas prices. The significant increase in the natural gas prices resulted from an increase in demand and the manipulation in the supply of natural gas for California. This, in turn, was part of the cause of exorbitant prices in the wholesale electric market to California, which also was victimized by price and supply manipulation by certain generators and marketers of electricity. California's experience in the energy crisis revealed how a shortage of natural gas and/or electricity, whether real or contrived, can be devastating to the people, businesses and the economy of the State of California. Even a shortage in just a couple of months could cause billions of dollars of additional costs, which would not be incurred if there were a balance in the supply and demand. Moreover, the direct connection between

natural gas supply and prices and the price of electricity was clearly established during the energy crisis. While steps have been taken by the State of California and the FERC to try to prevent future manipulation in the energy markets, it is critical that California not face a shortage between its natural gas demand and supply in the future regardless of the cause of such a shortage.

In the CEC's IEPR at 24, the CEC projects natural gas demand in California to increase over the next 10 years, particularly as a result of the growing use of natural gas for electric generation. The CEC further found that California's access to natural gas supplies is greatly affected by the strong growth in natural gas demand in Nevada, Arizona and the Pacific Northwest. *Id.*, at 26.

Notwithstanding the projected increase in natural gas demand in California, recent developments seriously threaten California's supply of natural gas in the long-term, although there is no immediate threat of a natural gas shortage during this year. One such threat is the loss of interstate pipeline capacity to California, which is critical because California's in-state production of natural gas can only meet (at most) 15% of the demand for natural gas in California.

For example, El Paso Natural Gas Company (El Paso) is the largest interstate pipeline serving California with certificated capacity to California of 3,290 MMcf/d (million cubic feet per day). In El Paso Natural Gas Company, et al., 99 FERC ¶ 61,244 (2002), when the FERC required El Paso's East of California (EOC) customers to decide how much El Paso capacity rights they will need in Contract Demand (CD) contracts in the near future, the FERC found that marketers serving California were willing to turn back to El Paso's EOC customers up to 725 MMcf/d of their firm capacity rights on El Paso to California. Of course, while this would benefit El Paso's EOC customers, it would be at the expense of the California consumers who would lose this access

to natural gas supplies. Faced with a substantial loss of interstate pipeline capacity to California, in D.02-07-037 we required California utilities to sign up for a significant amount of the firm capacity, which marketers had offered to turn back to El Paso's EOC customers.[2] Although the California utilities signed up for more than 400 MMcf/d of this capacity, California ultimately lost 533 MMcf/d of El Paso capacity to the EOC customers as a result of terminated contracts and some of the capacity offered by the marketers in that FERC proceeding. In addition, California has lost even more El Paso firm capacity rights and other interstate pipeline firm capacity rights due to long-term capacity releases of firm capacity by entities previously serving California.

Certain interstate pipeline transportation contracts between California natural gas utilities and El Paso, Transwestern Pipeline Company (Transwestern) or Gas Transmission Northwest Corporation (GTN) will expire in 2005 or 2006 and require notices of termination or the exercise of the right of first refusal in 2004 or early 2005.[3] Similarly, contracts for interstate pipeline transportation service (to California delivery points) between certain marketers and these interstate pipelines may terminate in 2005 or 2006, and it is unclear whether or

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[2] Marketers, who offered to turn back California capacity on the El Paso system, do not have a public service obligation to meet the needs of California consumers. Thus, the Commission turned to the California public utilities, which have public service obligations, to help ensure that California retained sufficient access to natural gas supplies.

[3] El Paso and Transwestern access natural gas producing basins in the Southwestern United States. GTN, formerly known as Pacific Gas Transmission Company, accesses natural gas from Canadian producing basins through upstream Canadian pipelines. Kern River Gas Transmission Company (Kern River) accesses natural gas from producing basins in the Rocky Mountains. Kern River's recent expansion of its interstate pipeline to Nevada and California mitigated the loss of some of the El Paso capacity.

not they will be renewed or subscribed to by entities serving California. Consequently, there is uncertainty over whether California will have enough interstate pipeline capacity rights secured by firm transportation contracts in the future to meet California's long-term needs.

A separate problem, in addition to the uncertainty over interstate pipeline capacity to California, involves new data concerning natural gas production and reserves in North America. With the exception of the natural gas producing basins in the Rocky Mountains, there are indications of decreasing production and declining proven reserves in most of the producing basins in the United States. Although it was previously assumed that there were ample proven natural gas reserves in Canada, which would be adequate to meet demand forecasts in Canada and for export to meet a substantial portion of the demand forecast in the United States, this assumption has been thrown into doubt by the most updated analysis of Canadian production of natural gas. Recent reports by Canada's National Energy Board (NEB) and the United States Department of Energy's Energy Information Administration (EIA) raise significant concerns about the sufficiency of long-term supplies of natural gas developed or produced in North America to meet long-term demand forecasts for North America. In the NEB's report entitled "Short-term Natural Gas Deliverability from the Western Canada Sedimentary Basin 2003-2005" (December 2003) at V, the NEB states that the Western Canada Sedimentary Basin (WCSB) serves practically all of Canada's domestic natural gas requirements and provides exports "that amount to approximately 15% of total market consumption in United States." Production of natural gas in the WCSB was at an all-time high of 16.7 Bcf/d (billion cubic feet per day) in 2001, but has decreased slightly thereafter. The NEB projects deliverability from the WCSB to further decrease to 15.8 Bcf/d by the end of 2005. *Id.*, at VI.

The new data has even more serious ramifications over the long-term. In the EIA's December 16, 2003 report entitled "Annual Energy Outlook 2004" (AEO2004) at 8, the EIA states: "Canadian imports are also projected to be sharply lower in AEO2004 than in AEO2003. Net imports of natural gas from Canada are projected to remain at about the 2002 level of 3.6 trillion cubic feet through 2010 and then decline to 2.6 trillion cubic feet in 2025 (compared with the AEO2003 projection of 4.8 trillion cubic feet in 2025). The lower forecast in AEO2004 reflects revised expectations about Canadian natural gas production... based on data and projections from the Canadian NEB and other sources." We are particularly concerned about these forecasts, because Canada supplies over 25% of California's gas requirements.

There is clearly a need for planning and actions to prevent a natural gas shortage in the future, which could otherwise cause a new energy crisis for California. The CEC has concluded that California must increase its energy efficiency programs to help moderate demand and must actively encourage infrastructure enhancements, such as additional interstate pipeline capacity, more operational flexibility in storage, and access to LNG facilities. *See* IEPR (December 2003) at VI, VIII, 26 and 29. At the Commission's and CEC's two-day joint workshop entitled "Natural Gas Market Outlook 2006-2016" on December 9-10, 2003, most speakers confirmed the need for increased energy efficiency and additional natural gas infrastructure to meet California's long-term natural gas needs.[4]

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[4] The presentations of the speakers at the workshop can be found, at this time, on the Commission's web site at :
http://www.cpuc.ca.gov/static/industry/gas/gas+workshop.htm

The Commission has the power and the obligation under Article XII, Section 6 of the California Constitution and Sections 451, 701 and 761 of the California Public Utilities Code to actively supervise and regulate natural gas public utilities in California and to do all things which are necessary to ensure adequate and reliable public utility service to California ratepayers at just and reasonable rates. *See Camp Meeker Water System, Inc. v. Public Utilities Com.* (1990) 51 Cal. 3d 850, 861-862; *Sale v. Railroad Commission* (1940) 15 Cal.2d 607, 617. Pursuant to this authority, the Commission is instituting this rulemaking proceeding to ensure that California does not face a natural gas shortage in the future. We therefore require the California natural gas public utilities to answer certain data requests and to submit proposals in the two phases of this proceeding, and we invite all interested parties to respond to the utilities' proposals and/or otherwise participate in this proceeding.

## III. Data Requests And Proposals To Address California's Long-Term Need For Natural Gas

In order to make informed decisions addressing the steps necessary to provide California with sufficient natural gas over the long-term, the Commission must call upon the expertise of the California natural gas public utilities, the natural gas industry, consumer groups and other interested parties who participate in Commission proceedings, as well as the Commission's staff. We are therefore requiring the California natural gas public utilities to answer data requests and submit proposals focused on the issues, which the Commission will specify below. All interested parties are invited to respond to the utilities' proposals, including offering modifications or alternatives to the proposals. Due to some deadlines facing the natural gas public utilities and market participants, we will have two phases in this proceeding: Phase I, an expedited hearing which will lead to the Commission's decision by the Summer

of 2004; and Phase II, the more comprehensive phase which will lead to the Commission's adoption of new rules and policies in a decision planned for the end of 2004.

### A. Data Requests

Pursuant to Sections 581, 584 and 701 of the California Public Utilities Code, the Commission requires the Respondent California natural gas public utilities to provide in a public filing in this proceeding information responsive to the Commission's data requests concerning the utilities' demand forecasts for their service territories (under various specified scenarios), the intrastate and interstate infrastructure (e.g., pipelines and storage facilities) necessary to meet the demand forecasts, the natural gas supply necessary to meet the demand forecasts, and the deadlines facing the utilities and market participants which could require Commission decisions or guidance in 2004. The Commission's specific data requests are attached to this OIR as Appendix A. Respondents should file and serve their data responses as attachments to their proposals addressing the issues for Phase I in this proceeding. The schedule for the filings in this rulemaking is listed below.

In these data requests, the phrase "California Natural Gas Public Utilities" refers to PG&E, SDG&E, SoCalGas and Southwest Gas collectively. The phrase "Your Utility" refers to the specific utility (e.g., PG&E) individually responding to the data requests. Forecasts and other quantities requested should be stated on an MMcf/d basis. The phrase "core customers" includes former noncore customers and core subscription customers, which have elected to become core customers. The phrase "noncore customers" excludes the former noncore customers, which have subsequently elected to become core customers.

### B. Phase I Proposals

Phase I is on an expedited track, so that the Commission can issue a decision to provide guidance to the California natural gas public utilities by the Summer of 2004. At a minimum, Phase I will address the following matters that we believe have deadlines necessitating a Commission decision by the Summer: (1) the California public utilities' decisions concerning their existing interstate pipeline firm transportation contracts and subscription to new interstate pipeline capacity; (2) access on the intrastate pipelines to LNG supply in the future; and (3) additional access to or expansion of interconnecting facilities with interstate pipelines to increase California's access to natural gas supplies. In their Phase I filings, the utilities and the responding parties may recommend additional matters for the Commission to rule upon by the Summer to the extent they provide sufficient justification for an expedited ruling on these other matters.

The California natural gas public utilities, identified herein as Respondents, are required to file proposals addressing the following Phase I issues:

#### 1. Sufficient Interstate Pipeline Capacity to Meet Core Procurement Supply Obligations

Each Respondent should propose the aggregate amount (on an MMcf/d basis) of firm transportation rights on interstate pipelines, which it believes it should hold in 2006 under long-term contracts with interstate pipelines in order to serve its core procurement supply obligations.[5] Each Respondent should also propose the aggregate amount of out-of-state supply (whether it transports the natural gas pursuant to firm contracts with interstate

[5] Core procurement supply obligations include supply for former noncore customers which become core customers.

pipelines or purchases the natural gas at interconnecting facilities that access LNG supplies), which it believes it will need in 2016 in order to serve its core procurement supply obligations. In each proposal, the Respondent should also generally address guidelines for: how it proposes to contract for sufficient interstate pipeline capacity to meet these supply obligations without risking a supply shortage to its customers in the near future or the long-term; how it will provide supply diversity with such contracts; and what process for Commission review should take place (after the Commission's decision in the Summer of 2004) for the Respondent to receive pre-approval of its specific contracts with each pipeline, including the potential reduction of contract demand capacity rights under existing contracts with interstate pipelines.[6] The Commission recognizes that the utilities will have to be in negotiations with the pipeline companies, whether it involves the existing contracts or new contracts, and the utilities may need some flexibility in deciding how much interstate pipeline capacity to sign up for on the various pipelines. While the Commission does not intend to put the utilities in a disadvantageous situation for these negotiations, there must be some type of process in order for the Commission to review and pre-approve new contracts before they are executed. Therefore, each Respondent should specify in its proposal the process it recommends for such pre-approval.

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[6] In D.02-07-037 (2002), Ordering Paragraph No. 4, we prohibited the California public utilities from turning back firm capacity rights on interstate pipelines unless and until we authorize such reductions in firm capacity rights on any given interstate pipeline.

### 2. Access on Intrastate Pipelines to LNG Supply

Although proposed LNG supplies on the West Coast may not be available until 2006 or later, there are a number of matters that must be resolved in the short-term for these LNG facilities to benefit California. One such matter involves the access issues on the intrastate pipelines in California. Each of the Respondents, except for Southwest Gas, should submit a proposal concerning guidelines for how natural gas supplies from LNG facilities can access each of their intrastate pipelines and distribution facilities to the extent that LNG terminals are constructed on the West Coast.[7]

Some of the proposed projects would be located in Baja California, Mexico and would need access for their natural gas supplies to be transported through Otay Mesa for the shortest transportation route to Southern California. There is currently an open season deadline of September 1, 2004 for use of pipelines in Mexico and the United States for this natural gas to be transported to Arizona and other East of California locations. We are concerned that LNG shippers may not have direct access from Baja California to the southern California market, and that we have not provided clear guidelines to SDG&E and SoCalGas for providing access to their transmission systems for such shippers. Therefore, so that this LNG supply may also be directly accessible to California, the Commission should issue a decision by the Summer of 2004 concerning general guidelines for access for such natural gas supplies to enter Southern California through Otay Mesa. Accordingly, SoCalGas and SDG&E must

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[7] Our reference to the "West Coast" is a general reference to the West Coast of California and Baja California, Mexico. We do not express herein any preference for any particular LNG facility located in Baja California, offshore California or onshore California. In addition, we do not express any judgment herein as to how many LNG terminals on the West Coast may be necessary.

address in their proposal the following issues concerning access through Otay Mesa: the reasonable amount of expansion capacity (which shippers may be interested in utilizing) and the costs for such capacity expansion for interconnecting facilities and intrastate pipelines to facilitate this natural gas supply being available to California; the costs and terms for users of these interconnecting facilities; whether there would be double receipt points (i.e., SDG&E and SoCalGas) or one integrated path for such supplies; and whether any other issues (e.g., bypass or peaking rate issues) exist and how they should be resolved if an entity supplies natural gas through this route or a shipper receives natural gas through this route.

For any LNG project, which is proposed to be built in or near the public utilities' service territory (i.e., onshore or offshore California), each Respondent (except Southwest Gas) should also submit in a proposal the extent to which it would have to interconnect with or expand its intrastate pipelines to make the natural gas accessible; the costs and terms for users of these interconnecting facilities; and whether any other issues (e.g., bypass or peaking rate issues) exist and how they should be resolved if a shipper receives natural gas from the LNG facility.

### 3. Access on Interconnecting Facilities with Interstate Pipelines

In the case of Kern River's recent expansion, which is already in operation, there is currently a dispute as to the accessibility of additional Rocky Mountain supply of natural gas to Southern California. In light of California's future need for natural gas supplies from the Rocky Mountains and other supply sources, the Commission should issue guidelines involving interconnecting facilities, which may include, if warranted, modifications to Commission decisions. Therefore, SoCalGas is directed to file as part of its Phase I filing, a

proposal for providing additional access for Rocky Mountain supplies to reach California through SoCalGas' interconnecting facilities.

In conjunction with the California natural gas public utilities' new or renewed contracts, which they intend to enter into with interstate pipelines, there may also be issues relating to interconnecting facilities with the pipelines. To the extent that any Respondent is aware of such an interconnection facility issue and believes that it is urgent for the Commission to decide this issue by the Summer of 2004, the Respondent should include in its Phase I filing a proposal concerning the interconnecting facility.

### C. Phase II Proposals

As discussed above, California's energy crisis was caused, in part, by the manipulation in the supply and price of natural gas, and this resulted in billions of dollars of additional costs in natural gas and electric prices ultimately borne by California consumers. What is striking is that this occurred during the time when there were abundant natural gas supplies in North America and close to one Bcf/d of excess interstate pipeline capacity under firm interstate pipeline contracts to California primary delivery points. We now face in a few years insufficient natural gas supplies in North America for all of the forecast potential demand, as well as less interstate pipeline capacity under firm contracts to California, than during the energy crisis. We are uncertain about whether interstate pipeline capacity, which physically connects to California intrastate pipelines, has sufficient available upstream capacity to meet California's natural gas requirements. Unless the interstate pipeline capacity is under a contract for firm service to California primary delivery points and the contracting shipper

intends to use the capacity to transport natural gas to California, there is no assurance that the pipeline capacity will be available to meet California's needs.[8]

These developing conditions present a serious risk of higher natural gas prices or a future natural gas shortage for California, which could be comparable to or even worse than what occurred during the energy crisis, unless the Commission takes new steps and adopts policies and rules to attempt to prevent such a shortage. Accordingly, unless the California natural gas public utilities can demonstrate that they can already fully protect California from a short-term or long-term natural gas shortage caused by interruptions in natural gas supply, we must adopt new policies and rules to be prepared to address these natural gas shortage issues. Accordingly, we are requiring in addition to the Phase I proposals, the following Phase II proposals.[9]

### 1. Natural Gas Utilities' System Reserves for Emergencies

In addition to procurement obligations for core customers, the California natural gas public utilities have public service obligations to all of their core and noncore customers in terms of how the utilities operate their systems. All four California natural gas public utilities are obligated to operate

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[8] In D.02-07-037, Ordering Paragraph No. 4, we prohibited long-term capacity releases by the California utilities unless and until we authorize such long-term capacity releases. In light of the current uncertainty over the amount of interstate pipeline capacity available to California, we continue herein this prohibition against long-term capacity releases by California public utilities.

[9] Southwest Gas may file a more limited Phase II proposal unique to its situation (compared to what we are requiring PG&E, SDG&E and SoCalGas to file), because Southwest Gas has much smaller service territories in California and much smaller volumes of natural gas transported for its noncore customers than the other three utilities. Southwest Gas should propose what it believes would be the appropriate emergency reserves for its system in light of its differences from the other utilities.

their natural gas distribution systems to meet the transportation needs of all of their core and noncore customers. In addition, PG&E and SoCalGas have storage facilities available to meet core and noncore needs, and both utilities also operate extensive intrastate pipelines, which provide access for core and noncore customers to supplies of natural gas from interstate pipelines, from in-state production of natural gas, to and from the utilities' own storage facilities, and, in the case of PG&E, to and from independent storage facilities.

In view of the future risk of California facing a natural gas shortage and much higher prices, the Commission proposes that the public service obligations of California natural gas public utilities, in their role as system operators, be expanded to include a requirement for maintaining "emergency reserves," which consist of: (1) slack capacity on the intrastate pipelines for maximum flexibility of access to storage and interconnecting pipeline facilities; (2) an emergency supply of natural gas in storage in California; and (3) a limited amount of additional interstate pipeline capacity subscribed to by the California utilities solely for the emergency needs of the utilities. In essence, we need insurance in the form of physical supplies that can be accessible to California in the event of an emergency. Even if utilities or some noncore customers enter into financial instruments that can hedge prices, the financial instruments provide inadequate protection to California, as a whole, if there is a physical limitation or supply interruption causing a shortage of natural gas supply for a short or long period of time. Natural gas is essential to provide heat and hot water in homes and businesses, for cooking food and drying clothes, and for fuel for many industries and electric generators. We therefore need access to and a supply of natural gas as a physical hedge to protect California in an emergency situation.

PG&E, SDG&E and SoCalGas, as system operators, are directed to file Phase II proposals to provide an emergency reserve for their systems consisting of excess intrastate pipeline and interstate pipeline capacity, as well as an additional reserve of natural gas in storage. These proposals should specify: how much slack capacity should be available on their intrastate pipelines for emergencies; the amount of additional firm interstate pipeline capacity rights that the utilities believe would be a sufficient amount for them to subscribe to as emergency reserves; how much natural gas emergency reserves they should retain in their storage facilities, or in the case of PG&E, possibly by way of contract with independent storage operators; whether or not PG&E's or SoCalGas' storage facilities should be expanded to help meet future California demand for natural gas; whether existing or new independent storage facilities should be expanded or constructed; and/or the extent to which expansion of intrastate pipelines may be necessary to enhance access to and flexibility in storage operations.[10]

The emergency reserves of natural gas and capacity rights, which we are considering, should not be considered as dedicated to particular core customers or noncore customers nor assumed to be available in any particular customer's future plans. The emergency reserves should be dedicated to California's needs in the future in the event of a shortage. Each of the Respondents should propose a process under which the Respondents would promptly inform the Commission of an imminent threat of a shortage and of

[10] In light of our light-handed regulation of independent storage operators, we have not named them as Respondents in this rulemaking. Of course, they may choose to participate and file responses as interested parties, which may include any comments on the proposals of the Respondents.

their proposed use of the emergency reserves to protect the customers in their service territories. These proposals should also include a provision as to how the utilities should recover their costs associated with the emergency reserves in a systemwide charge to all customers (e.g., an equal cents per therm volumetric charge), and, to the extent that certain core or noncore customers are allocated a portion of the natural gas reserves in storage during the emergency, a provision as to how that group of customers should be charged for replenishing the supply in storage.

The utilities' proposals for these emergency reserves should address each of the above-mentioned concerns. These proposals should also address how to provide for the emergency reserves in the most cost-effective manner, bearing in mind that the utilities' public service obligations will encompass this responsibility to protect California natural gas consumers from a natural gas shortage.

### 2. The Utilities' Potential Backstop Function

In addition to and totally separate from the emergency reserves requirement, the Commission is considering the necessity of the natural gas utilities operating as a backstop *if* the noncore market participants do not ensure sufficient interstate pipeline capacity to meet the noncore customers' needs in the future. It is premature to assume that the noncore market participants (e.g., generators, industrial customers, large commercial customers, and marketers serving these end-users) will not provide for the necessary infrastructure, including contracts for firm interstate pipeline capacity to California, to meet their needs. It is our hope that the noncore customers will take care of themselves.

Nevertheless, we are very concerned about the uncertainty as to whether or not sufficient firm interstate pipeline capacity to California delivery points will be under contracts in the future to meet all of the noncore customers' natural gas needs. As discussed above, numerous marketers offered to turn back El Paso interstate pipeline capacity, and a substantial amount of this capacity was lost to California. In addition, entities are entering into or have entered into long-term capacity releases, which have redirected interstate pipeline capacity away from California delivery points. Many contracts (with California delivery points) between marketers and interstate pipelines will be expiring in the next few years. Many of the large industrial customers and large commercial customers of the California utilities have historically resisted entering into long-term contracts for interstate pipeline capacity.

Consequently, the Commission intends to monitor this situation further, and we instruct the Respondents to propose in their Phase II filings a process by which they will gather information and keep the Commission regularly informed about the infrastructure and services provided to their noncore customers, including the amount of firm interstate pipeline capacity in contracts between interstate pipelines and California noncore customers and/or marketers serving California noncore customers. This information should also include updates as to how much interstate pipeline capacity, which has previously been utilized to serve California, is serving markets outside of California.

In the event that it turns out that there is insufficient interstate pipeline capacity under contracts to serve the noncore market in California, then we will have to consider whether or not the utilities should subscribe to a certain amount of interstate pipeline capacity to serve the noncore customers in their service territory. This "backstop function" would only pertain to ensuring the additional

necessary infrastructure to meet noncore customers' needs, but would not pertain to purchasing natural gas for noncore customers, which do not choose to become bundled "core" customers. Moreover, we are requiring the utilities to monitor and inform us of the situation, and, therefore the backstop function of the utilities is merely a potential function at this time.

We do not want to discourage any California noncore customers (i.e., end-users or marketers serving them) from arranging for their own secure supply of natural gas by entering into firm transportation contracts with interstate pipelines with California primary delivery points. Therefore, we are calling this a potential function of the utilities, which could be prevented by the noncore customers signing up for sufficient firm interstate pipeline capacity rights. In addition, we require the Respondents to propose a crediting mechanism as part of their Phase II proposal, which would provide a full or partial credit to a noncore customer from a backstop recovery charge, if any is ultimately adopted, such that the noncore customer would not pay twice for reservation charges with the interstate pipelines.[11] Such a crediting mechanism is hypothetical at this time, because the backstop function of the utilities and any specific charges for the backstop function are hypothetical at this time.

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[11] For example, if the utility ultimately performed a backstop function, it would be entitled to have a specific charge to noncore customers for recovering the utility's additional costs relating to interstate pipeline reservation charges for firm capacity to serve noncore customers. If a noncore customer (whether an end-user or a marketer serving an end-user) could demonstrate that its full needs were met under firm transportation contracts with interstate pipelines serving California or, in the future, under long-term supply contracts for gas from LNG facilities, then the noncore customer may be entitled to a full credit and not have to pay a specific charge for the backstop function of the utility. If the noncore customer could only demonstrate that a portion of its needs were met under such contracts, then it may be entitled to only a partial credit from such a specific charge involving the backstop function.

Regardless of the hypothetical nature of the crediting mechanism, it is important that the Respondents include a crediting mechanism in their Phase II proposals concerning their potential backstop function, so that the market participants have notice of the crediting mechanism when they make their decisions about signing up for firm interstate pipeline capacity rights in the near future.

Consequently, Respondents' Phase II proposals for the potential backstop function should include a process for keeping the Commission informed of the developments discussed above, and a crediting mechanism in the event we subsequently require the utilities to perform a backstop function and adopt associated charges.

### 3. New Ratemaking Policies Consistent with the Goal of Ensuring Adequate and Reliable Long-Term Natural Gas Supplies

Our current ratemaking policies are aimed at providing the California natural gas public utilities with incentives to keep their costs as low as possible and operate as efficiently as possible. For example, the utilities have "at risk" conditions for recovering some of their costs based upon the noncore throughput on their systems. In light of our examination of new policies to guard against a future natural gas shortage, which could otherwise ultimately impose extremely high costs on California ratepayers, we need to examine our current ratemaking policies so that our public service obligation policies and ratemaking policies are consistent with each other.

It may be that there are some conflicting interests in this regard, and that we need to change certain of our current ratemaking policies. Specifically, "at risk" type of conditions may create incentives to the utilities to focus too much upon short-term gains or potential losses rather than long-term results. Yet, it is the long-term supply situation, where we risk potentially serious consequences.

Secondly, these ratemaking policies may create incentives to the utilities not to have slack capacity, in order to protect their shareholders from any risks. This could undermine the utilities' cooperation with new suppliers of natural gas or independent storage operators. Yet, we need slack capacity and flexibility to enhance California's access to sufficient supplies of natural gas at various times of the year and to make sure that competition at the California border is viable.

Thirdly, specific risk factors affecting potential profits or losses for the utilities could potentially dominate the utilities' perspective away from ensuring adequate and reliable service to all of their customers. Yet, first and foremost, the focus of the utilities should be upon providing adequate and reliable service at reasonable rates to all of their ratepayers in their service territories.

In light of the above, we provide notice herein that we are reexamining these ratemaking policies, and we could potentially modify decisions prospectively, which rely upon these ratemaking policies. We therefore require the Respondents in their Phase II filings to identify and propose changes to current "at risk" conditions they face in their rates, which they believe create incentives that conflict with the Commission's policies in favor of energy demand reduction efforts (e.g., energy efficiency programs) and the Commission's proposals for additional slack capacity, additional interstate pipeline reservation charges and emergency reserves of natural gas.

Accordingly, in their Phase II filings, Respondents should submit proposals as to how to change current ratemaking policies to conform to the new policies of this Commission requiring them to promote energy efficiency programs and maintain and preserve enhanced infrastructure to meet California's demand for natural gas in the long-term.

## IV. Preliminary Scoping Memo

Rule 6(c)(2) of our Rules of Practice and Procedure[12] provides that an OIR "shall preliminarily determine the category and need for hearing, and shall attach a preliminary scoping memo." This OIR is preliminarily determined to be quasi-legislative, as that term is defined in Rule 5(d). It appears that there may not be material factual disputes on Phase I issues. In addition, due to the need for a decision this summer on these issues, it is contemplated that Phase I of this proceeding will be conducted expeditiously through a written record, with no evidentiary hearing for this phase, and that an order will issue based on the comments timely filed in this docket. As to Phase II of this proceeding, there will be a prehearing conference, Assigned Commissioner Ruling or an Administrative Law Judge (ALJ) Ruling governing the subsequent procedures after the initial rounds of pleadings on the Phase II issues. In addition, if warranted, through an Assigned Commissioner Ruling or an ALJ Ruling, a Phase I issue may be transferred to Phase II of this proceeding.

The scope of Phase I of the OIR is to adopt rules, which will provide guidelines over how the designated utilities should: (1) enter into contracts with interstate pipelines (whether new contracts or renewals of existing contracts) to meet core supply obligations; (2) provide access to LNG supplies of natural gas; and (3) provide access to additional supplies of natural gas transported on interstate pipelines. These issues are discussed in greater detail in Section III. B., above.

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[12] Title 20 California Code of Regulations.

The scope of Phase II of the OIR is to adopt rules, which will provide guidelines over: (1) how the designated utilities should provide emergency reserves consisting of slack intrastate pipeline capacity, contracts for additional firm interstate pipeline transportation rights, and supplies of natural gas in storage dedicated for emergency needs; (2) the process by which the utilities should keep us informed of whether or not they would need to perform a backstop function to secure enough additional firm transportation rights if the noncore participants do not subscribe to sufficient interstate pipeline firm capacity rights; and (3) new ratemaking policies that will be consistent with the goal of ensuring adequate and reliable long-term supplies of natural gas to California. All of these issues are discussed in greater detail in Section III.C., above.

Respondents are required to file Phase I and Phase II proposals. Interested parties are invited to file comments on these proposals. Respondents may file replies to the comments of interested parties and to the proposals of other Respondents, if necessary. In their original filings in Phase I of this proceeding, Respondents and interested parties shall include in their pleadings any objections they may have regarding the categorization of this proceeding as quasi-legislative, as well as whether there are any objections to this preliminary scoping memo, or to the expedited schedule set forth herein.

Pleadings shall conform to the requirements of Rule 14.5 and shall be filed with the Commission's Docket Office and served according to the schedule below.

## V. Phase I And Phase II Schedules

In accordance with Rule 6.3 and 6(c)(2), we provide preliminary schedules for Phase I and Phase II.

We adopt the following as preliminary schedules, which may be changed, if necessary, by an Assigned Commissioner Ruling or an ALJ Ruling:

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| OIR issued | January 22, 2004 |
| Respondents' Phase I proposals filed | February 24, 2004 |
| Interested parties' Phase I comments filed | March 23, 2004 |
| Respondents' replies filed | April 6, 2004 |
| Decision on Phase I proposals issued | Summer, 2004 |
| Respondents' Phase II proposals filed | March 23, 2004 |
| Interested parties' Phase II comments filed | May 4, 2004 |
| Respondents' replies filed | May 18, 2004 |
| Prehearing conference, Assigned Commissioner Ruling or ALJ Ruling on Phase II supplemental schedule | Spring or Summer, 2004 |

## VI. Ex Parte Communications

This proceeding is subject to Rule 7, which specifies standards for engaging in ex parte communications and the reporting of such communications. Because we have preliminarily categorized this proceeding as quasi-legislative, pursuant to Rules 7(a)(4) and 7(d), ex parte communications will be allowed without any restrictions or reporting requirements until an assigned Commissioner makes an appealable determination of category as provided for in Rules 6(c)(2) and 6.4. Following the Commissioner's determination, the applicable ex parte communication and reporting requirements shall depend on such determination unless and until the determination is modified by the Commission pursuant to Rule 6.4 or 6.5.

## VII. Service List

The service list from R. 02-06-041 shall be the initial service list for this proceeding and shall continue in effect until a ruling notifying parties of a new service list is issued. This service list may be accessed on the Commission's web site, www.cpuc.ca.gov , by clicking on "Proceedings," then clicking on "Service Lists." The service list for this proceeding can be located in the "Index of Service Lists" by scrolling to the proceeding number. To view and copy the electronic addresses for a service list, down-load the comma-delimited file, and copy the column containing the electronic addresses. The Commission's Process Office periodically updates service lists to correct errors or to make changes at the requests of parties and non-parties on the list.

Any party interested in participating in this OIR who is unfamiliar with the Commission's procedures should contact the Public Advisor's Office in Los Angeles (213) 649-4782, public.advisor.la@cpuc.ca.gov, or in San Francisco (415) 703-2074, public.advisor@cpuc.ca.gov.

## VIII. Service By Electronic Mail

Because of the expedited schedule in this proceeding, service of the comments is to be made by electronic means to all parties providing the Commission with an electronic mail address. Paper originals and the required number of copies must still be filed with the Commission's Docket Office. The assigned Administrative Law Judges are to be served electronically at jsw@cpuc.ca.gov and dkf@cpuc.ca.gov. In addition, the advisory Commission staff assigned to this proceeding are to be served electronically at hym@cpuc.ca.gov, ram@cpuc.ca.gov, skh@cpuc.ca.gov and wmp@cpuc.ca.gov. Service by electronic mail will be used in lieu of paper mail where an electronic address has been provided. Any party on the service list who has not provided

an electronic mail address shall serve and take service by way of paper mail. Service by mail is described in Rule 2.3(a).

## O R D E R

Therefore, **IT IS ORDERED** that:

1. A rulemaking is initiated on the Commission's own motion to establish policies, processes and rules to ensure reliable, long-term supplies of natural gas to California.

2. California's natural gas public utilities, Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Gas Company (SoCalGas) and Southwest Gas Corporation (Southwest Gas), are made Respondents to this proceeding.

3. The Executive Director shall cause this Order Instituting Rulemaking (OIR) to be served on Respondents and on the service list for Rulemaking 02-06-041.

4. The initial service list for this proceeding shall be the R.02-06-041 service list, and that service list shall be used until a ruling is issued notifying parties of a new service list.

5. The category of this rulemaking is preliminarily determined to be "quasi-legislative" as that term is defined in Rule 5(d) of the Commission's Rules of Practice and Procedure.

6. By February 24, 2004, Respondents shall file Phase I proposals for rules providing guidelines for how they should: (1) enter into contracts with interstate pipelines (whether new contracts or renewals of existing contracts) to meet core supply obligations; (2) provide access to liquefied natural gas supplies of natural gas; and (3) provide access to additional supplies of natural gas transported on interstate pipelines. Respondents shall also file (as attachments to their Phase I

proposals) their responses to the Commission's data requests in Appendix A, attached to this decision.

7. Interested parties may submit comments on these Phase I issues by March 23, 2004, and Respondents may file reply comments by April 6, 2004.

8. By March 23, 2004, Respondents shall file Phase II proposals for rules which will provide guidelines for: (1) how the designated utilities should provide emergency reserves consisting of slack intrastate pipeline capacity, contracts for additional firm interstate pipeline transportation rights, and supplies of natural gas in storage dedicated for emergency needs; (2) the process by which the utilities would keep the Commission informed of whether or not they should perform a backstop function to secure enough additional firm transportation rights if the noncore participants do not subscribe to sufficient interstate pipeline firm capacity rights; and (3) new ratemaking policies that will be consistent with the goal of ensuring adequate and reliable long-term supplies of natural gas at reasonable rates to California.

9. Interested parties may submit comments on these Phase II issues by May 4, 2004, and Respondents may file reply comments by May 18, 2004.

10. The above-mentioned deadlines are preliminarily approved and adopted, but may be changed, if necessary, by an Assigned Commissioner Ruling or an ALJ Ruling. In addition, if warranted, in an Assigned Commissioner Ruling or an ALJ Ruling, one or more Phase I issues may be transferred to Phase II of this proceeding.

11. Pursuant to Commission Rules of Practice and Procedure, Rule 6(c)(2), Respondents and interested parties shall include with their initial Phase I pleadings any objections they may have regarding the categorization of this OIR or the procedural schedule.

This order is effective today.

Dated January 22, 2004, at San Francisco, California.

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

# APPENDIX A

## DATA REQUESTS

**1. Please provide in aggregate amounts on an MMcf/d basis for Calendar Years 2006 and 2016 Your Utility's demand forecasts for its service territory under the following scenarios.[1]**

a. Average Year Scenarios
   i. Average Year
   ii. Average Year + 10%
   iii. Average Year + 20%

b. Abnormally Cold Year Scenarios
   i. 1 in 10 years
   ii. 1 in 10 years + 10%
   iii. 1 in 35 years
   iv. 1 in 35 years + 10%

c. Abnormally Dry Year Scenarios
   i. 1 in 10 years
   ii. 1 in 10 years + 10%
   iii. 1 in 35 years
   iv. 1 in 35 years + 10%

d. Abnormally Cold and Dry Year Scenarios
   i. 1 in 10 years
   ii. 1 in 10 years + 10%
   iii. 1 in 35 years
   iv. 1 in 35 years + 10%

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[1] In answering this data request, please provide your assumptions in your forecasts as to electric generation plants retired, repowered, or constructed in your utility's service territory.

## APPENDIX A

## DATA REQUESTS

2. **For each of the scenarios in 1. a. i-iii through d. i-iv above please provide in aggregate amounts on an MMcf/d basis for Calendar Years 2006 and 2016 the infrastructure needed for Your Utility's forecasts identified below**

   a. Intrastate pipeline capacity necessary to meet demand in service territory
      i. Total intrastate pipeline capacity necessary for service territory
      ii. Intrastate pipeline capacity necessary for core customers
      iii. Intrastate pipeline capacity necessary for noncore customers

   b. Storage capacity necessary to meet demand
      i. Total storage capacity necessary for service territory
      ii. Storage capacity necessary for core customers
      iii. Storage capacity necessary for noncore customers

   c. Interstate pipeline capacity necessary to meet demand[2]
      i. Total interstate pipeline capacity necessary for service territory
      ii. Interstate pipeline capacity necessary for core customers
      iii. Interstate pipeline capacity necessary for noncore customers

[2] "Interstate pipeline capacity" as used in this particular data request refers to firm transportation rights on interstate pipelines for Calendar Year 2006, but for Calendar Year 2016 more generally refers to access to out-of-state supplies of natural gas, whether transported on interstate pipelines to California or imported and shipped to Liquefied Natural Gas (LNG) facilities which access California's natural gas market.

## APPENDIX A

## DATA REQUESTS

3. **Please provide information concerning the firm interstate pipeline transportation contracts (with California primary delivery points) held by California Natural Gas Public Utilities and by Other Entities**[3]

   a. Provide the amount of firm transportation rights Your Utility currently has on each interstate pipeline to California

   b. Provide the total amount of firm interstate pipeline transportation rights currently held by Other Entities (with primary delivery points to California) on each of the following interstate pipelines:

      i. El Paso Natural Gas Company

      ii. Transwestern Pipeline Company

      iii. Gas Transmission Northwest Corporation

      iv. Kern River Gas Transmission Company (Kern River)

   c. Provide the total amount of firm interstate pipeline transportation rights held by California Natural Gas Public Utilities or Other Entities, which had primary delivery points to California in Calendar Year 2000 but now have primary delivery points to markets other than California due to long-term capacity releases on each of the following interstate pipelines:[4]

      i. El Paso Natural Gas Company

      ii. Transwestern Pipeline Company

      iii. Gas Transmission Northwest Corporation

      iv. Kern River

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[3] The phrase "Other Entities" as used in this data request refers to participants in the noncore market in California, whether end-users (e.g., generators or industrial customers) or marketers which sell natural gas to end-users in California. Southwest Gas only needs to identify for its response to this data request the firm transportation rights Your Utility has on interstate pipelines to serve its California customers, and a breakdown of its core customers and noncore customers' demand (by volumes and percentages).

[4] If Your Utility is unable to answer some or all of this particular data request, please provide partial answers, where you can, and explain why you are unable to provide fuller responses.

## APPENDIX A

## DATA REQUESTS

d. Provide the total amount of firm interstate pipeline transportation rights which will be held by Other Entities (with primary delivery points to California) on each of the following interstate pipelines in Calendar Years 2005, 2006 and 2007[5]

   i. El Paso Natural Gas Company

   ii. Transwestern Pipeline Company

   iii. Gas Transmission Northwest Corporation

   iv. Kern River

e. Please provide a general description of any contingency plan Your Utility currently has in place to the extent that Other Entities do not subscribe to a sufficient amount of firm interstate pipeline transportation rights to California in order to serve the noncore market in Your Utility's service territory in Calendar Years 2005, 2006 and 2007

**4. Please provide the deadlines facing each of the California Natural Gas Public Utilities and others identified below:**

a. For each contract which Your Utility currently has with interstate pipelines for firm transportation rights to California primary delivery points (identified by pipeline, Contract Demand amount, and pipeline delivery points) provide:

   i. Date of expiration of each contract

   ii. Notice of termination date or exercise of right of first refusal date pursuant to each contract

c. Provide LNG-related deadlines affecting for access in Baja California

d. Provide any current interstate pipeline's open season deadline for expansions to California

c. Provide any other deadlines affecting long-term supply options

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[5] If Your Utility is unable to answer some or all of this particular data request, please provide partial answers, where you can, and explain why you are unable to provide fuller responses.

## APPENDIX A

## DATA REQUESTS

5. **Provide the following information concerning increasing access to Kern River**[6]

   a. The current capacity at each location where Your Utility's intrastate pipelines currently interconnect with Kern River

   b. Estimate of costs of expansions at each interconnection at different amounts of capacity (e.g., 100 MMcf/d, 200 MMcf/d)

   c. Amount of Kern River capacity available throughout the year to California Natural Gas Public Utilities[7]

6. **Please provide the range of new supply access costs for proposed LNG facilities at Otay Mesa, Long Beach and Oxnard that represent the best estimate of Your Utility**[8]

**(END OF APPENDIX A)**

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[6] PG&E and SoCalGas are the only utilities, which need to respond to this request.

[7] Assume for this data request that capacity under contracts with Nevada end-users and capacity under contracts to serve direct connect customers (e.g., in the EOR market) are not available throughout the year to the California Natural Gas Public Utilities.

[8] This request applies to SoCalGas and SDG&E only. It can be the presentation by David G. Taylor on December 10, 2003 at the CPUC-CEC workshop (Panel II D-LNG Facilities) or updated information in the same format and methodology as used in that presentation.